

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE ADJUSTMENT OF RATES OF OKOLONA)
SEWER CONSTRUCTION DISTRICT OF) CASE NO. 8751
JEFFERSON COUNTY, KENTUCKY)

ORDER ON REHEARING

On October 27, 1983, the Commission issued its Final Order in this proceeding granting a portion of the rate increase requested by Okolona Sewer Construction District ("Okolona"). Thereafter, on November 16, 1983, Okolona filed a petition for rehearing on the issues of allowable depreciation expense for rate-making purposes and the required refund of \$15,724 in tap-on-fees collected from two new customers during the test period. The Commission granted the petition for rehearing and requested additional information regarding the capital contributions of Okolona. This information was required to supplement the record on the issues of contributions in aid of construction and the allowable depreciation expense for rate-making purposes.

Okolona contended in its petition for rehearing that the Commission had improperly reduced the amount of rate increase granted by calculating the depreciation associated with contributed property on the year-end contributions in aid of construction, a large portion of which constituted repaid assessment bonds. This adjustment, along with the total exclusion of depreciation

expense on the plant and facilities constructed with the total proceeds of assessment bonds resulted in a double reduction to depreciation expense. At the time the Final Order was issued, the record did not contain specific information as to the sources of the funds included in the contributions account. Based on the information contained in the petition for rehearing, it was apparent that the position of Okolona was correct and depreciation expense had actually been reduced twice for the portion of the assessment bonds included in contributions in aid of construction. However, it was also apparent that the contributions in aid of construction account was substantially understated.

On March 26, 1984, a staff report was issued in this proceeding regarding the appropriate level of contributions in aid of construction, and the associated depreciation expense for rate-making purposes. Upon reviewing the information supplied in response to the information request on rehearing, staff found that due to improper accounting procedures the level of contributions in aid of construction on the books of Okolona was understated by \$2,916,549. Furthermore, the staff report found that if the contributions account was restated properly, taking into consideration all sources of contributed property, the allowable depreciation expense for rate-making purposes should be \$74,050 rather than the \$119,124 allowed in the Commission's Final Order.

All parties were given 20 days in which to submit comments on the staff report or request a hearing. Okolona responded on April 4, 1984, with a letter from its certified public accountant.

The response of Okolona cited one misplaced number on page 6 of 6 of the staff report but raised no objection to staff's proposed adjustment to contributions in aid of construction or the allowable depreciation expense for rate-making purposes.

The Commission's Order dated October 27, 1983, in this matter based the revenue requirements of Okolona on a 1.5X debt service coverage. Okolona's revenue bond ordinance requires that the debt service coverage of 1.5X be determined based on the revenue requirements exclusive of depreciation expense. Therefore, no adjustment to revenue requirements is required as a result of the adjustment to allowable depreciation expense herein. However, Okolona should adjust its books to restate its contributions in aid of construction based on the findings in the staff report.

In the Order of October 27, 1983, in this matter the Commission directed Okolona to refund to Brown Noltemeyer Company the sum of \$10,904 and St. Athanasius Catholic Church the sum of \$4,820 for fees which were not cost justified. The Commission required the refund because the fees had been identified by Okolona as tap-on-fees and no cost justification was provided for the amount of the fee. In its petition for rehearing, Okolona stated that these revenues had inappropriately been identified as tap-on-fees and stated that they had actually been charged to fulfill the requirements of its assessment bond ordinance. The Commission is of the opinion, based on the additional information contained in the petition for rehearing, that these fees were collected properly and no refund should be required.

IT IS THEREFORE ORDERED that the Order of October 27, 1983, be and it hereby is amended to reduce the allowable depreciation expense by \$45,074 to \$74,054.

IT IS FURTHER ORDERED that the level of contributions in aid of construction should be increased by \$2,916,549 to restate Account 271--Contributions in Aid of Construction in accordance with the Uniform System of Accounts for Sewer Utilities.


IT IS FURTHER ORDERED that the provisions of the October 27, 1983, Order requiring refunds to the Brown Noltemeyer Company of \$10,904 and St. Athanasius Catholic Church of \$4,820 are hereby rescinded.

IT IS FURTHER ORDERED that all other provisions of the Commission's Order of October 27, 1983, not specifically mentioned herein are hereby affirmed.

Done at Frankfort, Kentucky, this 4th day of June, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary